



Investment management since 1972

## Torrays Large Value

### Market Overview

Equities continued to move higher in the third quarter following the lead of an economic recovery that continues to exceed expectations. The question at the top of most investors' minds concerns the disconnect between the market's performance and the state of the economy. To date, markets have proved to be reasonable discounting mechanisms. They have reflected a positive view of the future, a view largely supported by the unprecedented scale of fiscal stimulus delivered by Congress, and the Federal Reserve's aggressive monetary policy. While there is no shortage of risks for the market to wrestle with in the immediate future, what began as a "liquidity-driven" recovery has made good progress over the past six months and begun to show signs of a sustainability.

### Portfolio Commentary

The Large Value Equity Composite rose 3.15% (3.08% net of fees) for the period versus 5.59% for the Russell 1000 Value Index and 8.93% for the S&P500. For the trailing 12 months, the Composite return was -6.48% (-6.80% net of fees), compared to -5.03% for the Russell 1000 Value Index and 15.15% for the S&P500. The economy appears to be recovering, but the improvement remains very uneven across sectors. Portfolio exposure to economically sensitive companies has been a headwind in the short term, but we expect this to change as the recovery broadens over time.

There is a sense the easy work has been done. What remains unclear is how the pandemic will reshape industries in the future.

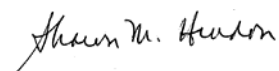

In the third quarter, positions in American International Group (AIG), Dow Inc. (DOW), BP (BP) and Cisco Systems (CSCO) were sold, with certain proceeds used to fund new investments in Oracle Corporation (ORCL) and SEI Investments Company (SEIC). Oracle provides products and services for all aspects of corporate information technology, including on-premise relational databases and enterprise resource planning. SEI is a global provider of technology services and platforms for wealth and investment management solutions.

Year-to-date the S&P 500 has gained 5.57%, having more than offset the significant decline which took place earlier in the year. While almost all of this increase is accounted for by Amazon and Apple (5.50% of the 5.57%), financial markets generally have been supported by aggressive fiscal and monetary measures coming from Washington. The S&P 500 currently has a forward twelve-month price earnings ratio of 22x, which is higher than the ratio in February before the market decline, and compares to a more modest 15x for the portfolio. With equity valuations above normal levels and interest rates at historically low levels, it is our expectation that market gains going forward will rely more on earnings growth than increased valuation. As mentioned above, we believe cyclical companies should be larger contributors to earnings growth once the economy begins to grow more sustainably.

## Outlook

Despite the market's impressive recovery, the economy is not out of the woods yet. The impact of Covid-19 is devastating, leaving sections of the U.S. and global economy severely, if not permanently, damaged. Unemployment remains high at just under 8% with payrolls more than 10 million below pre-pandemic levels. Additional fiscal stimulus is caught in political limbo and election uncertainty continues to weigh on investor and business confidence. There is a sense the easy work has been done. What remains unclear is how the pandemic will reshape industries in the future. These dislocations will certainly present risks and opportunities. As we consider the remainder of the year and beyond, we continue to position the portfolio in what we believe is balanced exposure to "quarantine" or secular growth businesses, and "recovery" or more economically sensitive businesses.

As ever, we appreciate your interest and trust.


  
 Shawn Hendon                      Jeffrey Lent  
 October 15, 2020

### Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
Apple Inc.	Info Tech	3.0	+1.8
Berkshire Hathaway Inc. Class B	Financials	5.3	+0.9
Eaton Corp. Plc	Industrials	4.7	+0.8
Sysco Corporation	Cons Stpls	3.2	+0.4
Marsh & McLennan Companies, Inc.	Financials	5.0	+0.4
Royal Dutch Shell Plc Spns. ADR Class A	Energy	2.8	-0.7
BP p.l.c. Sponsored ADR	Energy	2.8	-0.7
Intel Corporation	Info Tech	3.7	-0.5
Cisco Systems, Inc.	Info Tech	3.1	-0.4
General Dynamics Corporation	Industrials	3.4	-0.2

### Top 10 Holdings

Security	% of Holdings
Berkshire Hathaway Inc. Cl B	5.6
Johnson & Johnson	5.1
American Express Company	5.0
Eaton Corp. Plc	4.6
Marsh & McLennan Cos., Inc.	4.6
Bank of America Corp.	4.5
DuPont de Nemours, Inc.	4.5
Oracle Corporation	4.4
Intel Corporation	4.4
UnitedHealth Group Inc.	4.0
<b>Percentage of total portfolio</b>	<b>46.8</b>

Holdings are subject to change and are not recommendations to buy or sell a security. To obtain information about the calculation methodology used to select the largest contributors to and detractors from performance or to obtain a list showing every holding's contribution to performance during the measurement period, contact [bscalise@torray.com](mailto:bscalise@torray.com).

**Disclosures:** This commentary is for informational purposes only and should not be viewed as a recommendation to buy or sell any security. There is no guarantee that the views expressed will come to pass. Torray LLC is an independent registered investment adviser. Registration of an investment adviser does not imply any level of skill of training. For additional information about Torray LLC, including fees and services, please contact us or refer to the Investment Adviser Public Disclosure website ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)).

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values. The S&P 500 measures the value of stocks of the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq Composite.

Total returns include the reinvestment of dividends and other earnings. **Investing involves risk; principal loss is possible. Past performance is not indicative of future results.**

Source: FactSet and Torray LLC.